BANKRUPTCY REFORM/Tax Relief and $1 Minimum Wage Hike

SUBJECT: **Bankruptcy Reform Act of 1999 . . . S. 625. Domenici amendment No. 2547.**

ACTION: AMENDMENT AGREED TO, 54-44

SYNOPSIS: As reported, S. 625, will enact reforms to prevent creditors who have the means of paying their debts from unjustly filing for bankruptcy, will enact reforms to protect consumers from unfair credit practices, and will enact business bankruptcy reforms. It is similar to the bipartisan bill debated last session (see 105th Congress, 2nd session, vote No. 313).

The Domenici amendment would increase the minimum wage by $1 per hour in three installments over 26 months. The minimum wage would be $5.50 per hour beginning March 1, 2000, $5.85 per hour beginning March 1, 2001, and $6.15 per hour beginning March 1, 2002. To offset the expected job loss for low-income workers that comes from raising the minimum wage (for instance, the Congressional Budget Office (CBO) has estimated that the proposed $1 increase in the Kennedy amendment (see vote No. 356) would cause the loss of 100,000 to 500,000 jobs), the amendment would enact numerous small business and individual tax relief provisions to spur new job growth. In total, the amendment would give $18.4 billion in tax relief over 5 years and $75 billion in tax relief over 10 years. Funding would come out of the $1.4 trillion in non-Social Security tax surpluses that are expected to be collected over the next 10 years. The amendment would also allow employers to give their hourly employees pay performance and incentive bonuses without recalculating those employees' pay retroactively (the long-standing requirement for that retroactive calculation for hourly employees has discouraged employers from giving bonuses and incentives). Specific tax relief provisions include the following:

- an "above-the-line" tax deduction would be phased in for health insurance expenses of individuals who did not have employer-provided health coverage ("above-the-line" means that it would be available to taxpayers whether or not they itemized their deductions); the provision would be fully phased in by 2007; tax relief from this provision over 5 years would be $4 billion;
- more than 50 separate pension reform provisions would be enacted, including provisions: to increase contribution limits for 401(k) plans, 403(b) plans, and 457 plans; to allow women reentering the workforce to make catch-up contributions to their pension

(See other side)

YEAS (54)			NAYS (44)			NOT VOTING (2)	
Republicans (53 or 98%)		Democrats (1 or 2%)	Republicans (1 or 2%)	Democrats (43 or 98%)		Republicans (1)	Democrats (1)
Abraham	Helms	Cleland	Voinovich	Akaka	Kerrey	McCain-[2]	Hollings-[2]
Allard	Hutchinson			Baucus	Kerry		
Ashcroft	Hutchison			Bayh	Kohl		
Bennett	Inhofe			Biden	Landrieu		
Bond	Jeffords			Bingaman	Lautenberg		
Brownback	Kyl			Boxer	Leahy		
Bunning	Lott			Breaux	Levin		
Burns	Lugar			Bryan	Lieberman		
Campbell	Mack			Byrd	Lincoln		
Chafee, Lincoln	McConnell			Conrad	Mikulski		
Cochran	Murkowski			Daschle	Moynihan		
Collins	Nickles			Dodd	Murray		
Coverdell	Roberts			Dorgan	Reed		
Craig	Roth			Durbin	Reid		
Crapo	Santorum			Edwards	Robb		
DeWine	Sessions			Feingold	Rockefeller		
Domenici	Shelby			Feinstein	Sarbanes		
Enzi	Smith, Bob			Graham	Schumer		
Fitzgerald	Smith, Gordon			Harkin	Torricelli		
Frist	Snowe			Inouye	Wellstone		
Gorton	Specter			Johnson	Wyden		
Gramm	Stevens			Kennedy			
Grams	Thomas						
Grassley	Thompson						
Gregg	Thurmond						
Hagel	Warner						
Hatch							

EXPLANATION OF ABSENCE:
1—Official Business
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

plans; to increase the portability of private and public pension plans; and to reduce the regulatory burden on employers who offered savings plans; the 5-year tax relief from these provisions would be $4.4 billion;

- health insurance costs for the self-employed would be made fully deductible beginning in 2000 instead of in 2003, as scheduled under current law; the 5-year tax relief from this provision would be $2.9 billion;
- the Federal unemployment tax would be reduced from .8 percent of taxable wages to .6 percent, for 5-year tax relief of $2.7 billion;
- starting in 2001, the business meal deduction would be increased from 50 percent to 80 percent for small businesses and individuals, for 5-year tax relief of $2.58 billion;
- the Work Opportunity Tax Credit would be made permanent (that credit gives employers a credit of up to $2,400 per employee for wages paid to employees hired from one or more of eight targeted groups, including former welfare recipients); the 5-year tax relief from this provision would be $2 billion over 5 years; and
- starting in 2001, small businesses would be allowed to "expense" (deduct the cost of property in a current year instead of amortizing it over its useful life) up to $30,000 each year (under current law, the small business expensing limit is being gradually increased until it will reach $25,000 in 2003; for 1999, the limit is $19,000); the 5-year tax relief from this provision would be $1.5 billion.

Those favoring the amendment contended:

We enthusiastically support the Domenici amendment, which would increase the minimum wage by $1 per hour and which would provide small business and individual tax relief at the same time in order to ensure that the increase would not cause a net loss of jobs. All things being equal, ordering employers to pay a higher minimum wage will always cause people whose labor is not worth a new, higher minimum wage to lose their jobs. In order to prevent job loss when the minimum wage is raised, therefore, all things must not be kept equal. The approach taken by the Domenici amendment would be to enact a number of small business and individual tax reforms that would spur new job growth.

The basic economic problem of having a minimum wage is that the government cannot dictate how much a particular worker's labor is worth. If an entry-level, unskilled worker does not have the skills, work habits, or knowledge needed to be paid the minimum wage or more, then that entry-level worker is not going to be hired. A business that assumes costs that are greater than its profits does not stay in business for very long. If the only economic change is an increase in the minimum wage, the typical ways for a business to respond include raising prices, cutting back production, and eliminating entry-level jobs.

Though it is difficult to get economists to agree on anything, three-quarters of the 22,000 members of the American Economic Association agree that minimum wage hikes reduce job opportunities for low-skilled workers. In 1981, then-President Carter's commission on the minimum wage found that every 10-percent increase resulted in a disemployment effect of 100,000 to 300,000 jobs. Two of President Clinton's own appointees to the Federal Reserve Board have said that "The primary consequence of the minimum wage law is not an increase in the income of the least skilled workers, but a restriction on their employment opportunities." The Congressional Budget Office has estimated that raising the minimum wage by $1 over 2 years will cost 100,000 to 500,000 jobs; the Federal Reserve Bank of San Francisco has said it would cost 145,000 to 436,000 jobs.

Some Senators are very impressed that total employment in the United States has gone up since enactment of the last minimum wage hike in 1996 and 1997. We remind them that a great deal has happened economically besides that increase, which was a relatively minor change considering that only a small percentage of working Americans are paid that wage. Republican Congresses, with Democrats kicking and screaming all the way, forced through huge family tax cuts and balanced the budget, and they also insisted on enacting small business tax reforms at the same time that the minimum wage was passed. We Republicans do not take all the credit for the booming economy; for instance, most of our Democratic colleagues deserve praise for voting with us to reappoint the current Federal Reserve Chairman, who has done an admirable job of managing the money supply. In 1978 and 1989, when there were not favorable economic conditions to offset the harmful effects of minimum wage increases, such increases caused huge plunges in employment for unskilled youth.

The tax relief being provided in this amendment is necessarily larger than the tax relief that was provided the last time the minimum wage was increased because there is currently a greater need to create new entry-level jobs. That increased need is coming primarily from the welfare reform bill that was enacted, which has been incredibly successful in moving people off welfare and into the workforce. Entry-level jobs are often at the minimum wage, but studies have consistently shown that pay increases are usually rapid when workers start at the minimum wage. For instance, a 1992 study in the Industrial Relations and Labor Review found that 63 percent of minimum wage hires were earning an average of 20 percent more within 1 year; another study by Professor Macpherson at Florida State University found an average hourly increase within 1 year of 43 percent. The minimum wage is the bottom rung of the economic ladder. Once on it, people move quickly up. Raising the wage just eliminates the bottom rung and keeps some people from getting started.

The worst effects of raising the minimum wage are social. Numerous studies have shown that poorer Americans, predominantly minorities and single moms, are disproportionately harmed by the job losses that come from increases in the minimum wage. Many well-off young people, in high school and in college, are enticed to enter the job market when wages increase. The pool of applicants rises, and because these young people often possess greater skills than working poor parents, they get the jobs. White, suburbanite kids get jobs, and the unemployment rates for single mothers, blacks, and Hispanics rise.

The people that we all want to help the most are low-income families with children. Such families, in fact, are receiving more help now than they ever have in history. Our colleagues say that the real value of the minimum wage was at its greatest in 1968, when in real terms it reached $7.33. However, the Earned Income Credit (EIC) did not exist in 1968. Today, a family of three on the minimum wage gets $3,756 in EIC aid, bringing its income up to $14,468. It is true it would have had a slightly higher income in 1968, but it also would have had payroll and income tax liabilities that would not be eliminated by the EIC. Thus, the people who most need help are already receiving a record-high level of help.

At present, according to Clinton Administration officials at the Department of Labor, 1.6 million people are paid the minimum wage, 5.9 million are paid between the current and the proposed minimum wage, and 2.7 million are tip workers or others whose wages are at or under the minimum wage but who really typically earn far in excess of it. Our goal should be to drive these numbers down, particularly as they apply to the small percentage of minimum-wage workers who are the sole wage-earners supporting their children, at the same time as we raise the minimum wage and target benefits to those Americans who need them most.

The Domenici amendment would achieve that end first by enacting small business tax cuts in order to cause economic and job growth, and second by enacting individual tax cuts that would help low-income families. It would make health insurance costs fully deductible for small business owners, farmers, and other self-employed individuals, it would increase small business expensing by 50 percent to $30,000 and it would increase the business meal expense deduction for small businesses. These changes would reduce the tax burden on small businesses in general, thereby enabling them to be better able to afford to pay a higher minimum wage. The amendment would also repeal the temporary .2 percent increase in the unemployment tax, which applies to all taxable wages, whether at the minimum or not. Minimum wage income accounts for only about 1 percent of all earned income in America, so this change would have a large effect in increasing the amount that businesses have available to pay in wages. Both businesses and labor would be helped by removing this tax that is making labor more expensive.

The Domenici amendment would also make permanent the work opportunity tax credit. This action would help businesses by giving them up to a $2,400 credit for each former welfare recipient that they hired, but, more importantly, it would give employers a huge incentive to give any entry-level job openings to former welfare recipients, who are primarily single moms, instead of to well-to-do teens and college kids who may be more qualified. The other tax relief provisions in this bill would help the working poor get health insurance and pensions without increasing the cost of their labor. On health insurance, it would phase in the deductibility of health insurance for individuals. This change would help the working poor, who comprise nearly all of the Americans who do not have health insurance for extended periods of time. On pensions, it would enact a wide range of tax reforms, including reforms to help mothers establish decent pensions after they reenter the workforce late in life. These changes would again be aimed at the working poor, because they, not higher income Americans, are unlikely to have adequate pensions.

The total tax relief that would be provided by this amendment would be $18.5 billion over 5 years and $75 billion over 10 years. Some of our Democratic colleagues have said that it is horribly irresponsible to say that we have not proposed tax increases as an offset (as they did in the Kennedy amendment) or other offsets, because, they say, that $75 billion would have to come out of the Social Security tax surpluses that are going to be collected over the next 10 years. In response, we first remind our colleagues that only a couple of months ago nearly all Democratic Senators, including the senior Senator from Massachusetts, voted for a $300 billion tax cut over 10 years, without any offsets, as an alternative to the Republican plan to give $800 billion in tax relief. If they are right that our proposing to give $75 billion in tax relief would savage Social Security, then their proposal to give a $300 billion tax cut must have been a proposal to kill Social Security entirely. The truth is that, under current projections, there will be $1.4 trillion in non-Social Security surpluses generated over the next 10 years. Therefore, in the case of this amendment, Congress would have to increase total Federal spending by more than $1.325 trillion before any of the $75 billion in relief in this amendment would start reducing the Social Security surpluses. When Democrats complain that we are giving this tax relief to help the working poor, what they are really saying is that having an extra $1.325 trillion to spend in the next 10 years is not enough; they want to increase spending by the full $1.4 trillion.

A final, non-tax reform in this amendment would undo a Supreme Court interpretation of the law that requires time-and-a-half pay for overtime work. That interpretation said that employers could not give bonuses or pay incentives to their employees without counting that money as part of their base pay and then recalculating any overtime pay that had been given in the same year because otherwise some businesses might try to get around the overtime law by giving small salaries and huge bonuses. That ruling has made it very difficult and much less common to give wage earners bonuses. Under current law, an employer who wanted to give a valued wage employee a $1,000 bonus would have to go through some hairy calculations, and after hours of work might find that to give that bonus he would have to give a $700 raise and $300 in back overtime pay. Under the Domenici amendment, though, he could just give the $1,000 without any computations or concern that the Federal Government might charge him with violating the law due to an arithmetic error. We imagine that some employers might try to pay low salaries and give high bonuses in an effort to get around overtime laws; we note as well that some employers may try to get around overtime laws by lowering base pay and then offering time-and-a-half overtime hours, knowing that their workers will take it in order to get their average hourly wage back to the base level. As we see it, the main effect of the Supreme Court's ruling has not been to protect overtime pay but to keep tens of millions of American hourly workers from getting the bonuses that they would have otherwise received for the past 50 years. The Domenici amendment would finally end this injustice.

Having a minimum wage at all is a poor way to increase the earnings of low-income American families. Still, we understand the continued political popularity of the minimum wage, and many of us believe that without it some unscrupulous employers would manage to find workers willing to work for inhumanely low wages. Therefore, with the Domenici amendment, we have added a wide range of tax provisions both to offset the job loss effects that come from increasing the minimum wage and to make sure that the increase ends up helping mostly the working poor, especially if they have children, instead of high school and college kids. We strongly urge our colleagues to support this amendment.

Those opposing the amendment contended:

The Domenici amendment would increase the minimum wage over 26 months instead of over 14 months as proposed in the previous amendment. This large a delay would mean $1,200 less in income for a minimum wage worker waiting for the Domenici amendment increase to go into full effect. Of course, our Republican colleagues had no problem voting for a bill this year that would give Senators a $4,600 raise. That raise was not phased in over nearly 3 years–they got it right away. Frankly, with the inflation that has occurred since the last increase in 1997 and the inflation that would occur as this new increase went into effect, our Republican colleagues are basically offering nothing at all to low-income workers. Making matters worse, they have added a bunch of tax provisions to their amendment that would give $75 billion in handouts to their rich supporters. As if that were not bad enough, they did not bother to add any offsets. They just want to drain the money out of the Treasury. In the end, we believe that money would come right out of the Social Security surplus. The final outrage is that they would tear out one of the pillars of the Fair Labor Standards Act as it has been enforced for the past 55 years. That pillar stops unscrupulous businesses from trying to pay their employees mainly with bonuses as a way of getting around the requirement of paying time-and-a-half for overtime work. Even with this protection workers are being increasingly forced in America to work long hours. They are working overtime hours in order to make ends meet–their employers just are not paying them enough hourly for them to support their families on 40-hour work weeks. Organized labor is much weaker than it was in prior years, and workers are suffering as a result. If we were to take away this remaining legal protection on bonuses, all restraint would be removed and workers would be forced to work unconscionably long hours for low pay. In summary, the Domenici amendment would not help low-income workers; it would cause them tremendous harm. We strongly urge our colleagues to oppose this amendment.